

Rhode Island Long-Term-Care-Coordinating Council

A Guide to Long-Term-Care Insurance

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What is Long-Term Care?

Long-term care helps those with a chronic illness or disability unable to care for themselves over an extended period of time. Many different services can help people overcome limitations that keep them from being independent. The most common long-term care services help persons with activities of daily living, such as bathing, dressing, eating, toileting, taking medicine, and moving about. Long-term care services include home health care, respite care, adult day care, care in a nursing home, and care in an assisted-living residence.

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Will You Need Long-Term Care?

This year about seven million men and women over the age of 65 will need long-term care. Two-thirds of the people receiving long-term care are over 65 years, an age group expected to double by 2030. After 2030, even faster growth rates are anticipated for people over 85, the age group most likely to need care.¹

While the majority of those who need long-term care will be cared for by friends and family members, many people will turn to professional providers. According to the Brookings Institute, it is likely that 80% of us will have to pay for some long-term care in our lives. A national study found that, of the approximately 2.2 million people who turned 65 in 1990, more than 43% are expected to enter a nursing home at least once before they die.²

Women are more likely to need nursing home care than men. The study mentioned above predicted that 13% of women will spend five years or more in a nursing home, while only 4% of men will be in a nursing home that long.

Also, as you get older, your chances of needing long-term care increase.

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What Does Long-Term Care Cost?

Long-term care can be very expensive. The cost depends on the type of care you need, how much care you need, and where you receive that care. For

example, nursing home costs range from \$55,000 to \$100,000 per year in Rhode Island. Home care is less expensive but it still adds up. In Rhode Island, charges for home aide services are \$21 for the first hour, \$20/hour for two to five hours and \$18/hour for six or more hours. If an aide comes to a home three times a week, three hours per visit, it would cost \$9,360 per year. RN costs in the home average \$40 per hour. Costs of adult day services ranges from \$35 to \$67 per day and assisted living costs range between \$2,000 to \$4,000 per month. Charges for specialty care such as Alzheimer's Special Care programs may be higher. Some non-profit providers offer reduced fees on a sliding scale to lower income person.

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Who Pays for Long-Term Care?

People pay for long-term care in a variety of ways, including using personal resources, long-term care insurance, and some assistance from Medicaid.

- Individual Personal Resources: Nationally, about one-third of all nursing home costs are paid out-of-pocket by individuals and their families.
- Medicare, Medicare Supplement (Medigap) Insurance and Medicare Managed Care Plans: In general, neither Medicare, including both original Medicare and Medicare Managed plans, nor Medicare supplement insurance will pay for long-term care. Medicare supplement insurance is private insurance you can buy to help cover the gaps in Medicare coverage, but it does not cover long-term care. Medicare will pay for skilled nursing home and home care only in certain situations and on a short-term basis. It does not cover the type of ongoing assistance that many elderly people need for extended periods.
- Medicaid: Medicaid pays for nearly half of all nursing home care in addition to some home and community-based services. Medicaid eligibility is established by federal and state guidelines for income and assets. Many people start paying for nursing home care out of their own funds and 'spend down' their financial resources until they are eligible for Medicaid. Recent changes in the law allow some assets and income to be protected for a spouse who remains at home.
- Long-term Care Insurance: Long-term care insurance is a type of insurance that will pay for some or all of your long-term care. Although long-term care insurance is relatively new, more than 100 companies now offer coverage.

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Is Long-Term Care Insurance Right for You?

Whether you should buy a long-term care insurance policy depends on your age, health status, overall retirement goals, income and assets. Insurance companies have medical underwriting standards to keep the cost of long-term care insurance affordable. If you already have certain chronic health problems that are likely to mean you will need long-term care (for example, Alzheimer's disease, Parkinson's disease, Multiple Sclerosis, or

ALS/Lou Gehrigs Disease), you will not be eligible to purchase a policy. Whether or not to purchase a long-term care insurance policy requires serious financial consideration as well. If you have sufficient retirement income and can afford the premiums, you may want to buy a long-term care insurance policy. Many people buy a policy because they do not want to depend on government or family assistance.

However, you should not buy a policy if you can't afford the premium or aren't sure you can pay the premium for the rest of your life. If you would easily qualify for Medicaid, then you should not buy a policy. Some people choose not to buy long-term care insurance because they have a very large income and/or asset base so they feel comfortable "self-insuring." If you decide to self insure, however, you should realize that you might pay as much as \$40,000 to over \$100,000 per year out-of-pocket.

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What Do Long-Term Care Insurance Policies Cost?

Premiums for long-term care insurance vary greatly. The premium you will pay depends on many factors, including your age and the benefits you select. A 65-year-old person can expect to spend about \$2,000 on the annual premium for a long-term care insurance policy with inflation protection. Since long-term care insurance premiums are based on age at the time of purchase, the younger you are when you buy a policy, the less expensive the annual premium.

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Are Long-Term Care Insurance Premiums Tax Deductible?

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) identifies long-term care insurance policies as either 'tax-qualified' or 'non tax-qualified.' A federally tax-qualified long-term care insurance policy offers certain federal income tax advantages, but a non tax-qualified policy does not. If you have a qualified policy, you may be able to include some or all of your long-term care insurance premiums as medical care expenses on your federal income tax return. The maximum amount that you can claim depends on your age. Nevertheless, medical and dental expenses, including any eligible portion of your tax-qualified premiums, are deductible only to the extent they exceed 7.5% of your adjusted gross income. Persons should check with their tax or legal advisor to find out if and how much they may be able to deduct.

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What Should You Consider When Purchasing a Policy?

Types of Services Covered

It is important to find out what services your long-term insurance policy covers. Policies may cover the following:

- Nursing home care
- Home health care
- Personal care in your home

- Care in an assisted living facility
- Adult day care
- Respite care
- Services in other community facilities

Maximum Benefit Limit

Most policies limit the total benefit that they will pay over the duration of the policy. Some policies state the maximum benefit limit in years, while others write the maximum benefit as a total dollar amount.

When choosing a policy, you will have to decide the length of time for which you would like insurance coverage. In most states, the minimum benefit period is one year. Although most nursing home stays are relatively short, illnesses that go on for several years could mean long nursing home stays. You will have to decide if you want coverage for very long stays. On average, the likelihood of needing long-term care for more than five years is relatively small, so a policy covering three to five years is more cost-effective for most people.

Daily Maximum Benefit

Most long-term care insurance policies pay benefits by the day. For example, a policy might pay a daily nursing home benefit of up to \$100 per day. Some policies will also pay one time for single events, such as installing a home medical alert system.

When you buy a policy, you choose a benefit amount (usually \$50 to \$250 per day) for care in a nursing home. If the policy covers home care, the benefit is usually a portion of the benefit for nursing home care.

It is important to find out how much skilled nursing homes, assisted living facilities and home health care agencies charge for their services before you choose the benefit amount for your policy. Check the facilities in the area where you think you might be receiving care, including local, near a grown child, or in a new place where you may retire.

Inflation Protection

Inflation protection is an extremely important addition to a long-term care insurance policy, especially if you purchase a policy before the age of 75. Without inflation protection, years from now you may find that your daily maximum benefit can no longer cover the cost of long-term care. For example, a nursing home that costs \$175 per day now will cost \$464 per day in 20 years, assuming an inflation rate of 5% per year.

Therefore, the younger you are when you purchase a policy, the more important it is to think about adding inflation protection. Be sure to research a plan that offers 5% compound inflation protection.

When Benefits Start

Many policies have what is called an elimination period (also known as a deductible or a waiting period) during which time the policy will not pay for your long-term care. This means that your benefits won't start until 20, 30, 60, 90 or 100 days after you start using long-term care. Many policies also offer a 0-day elimination period for home care. The amount of time you must wait for benefits to start depends on the elimination period you choose. You generally pay a higher premium for a shorter elimination period. If you choose a longer elimination period, you'll pay a lower premium but you will have to pay the cost of care during the elimination period. Be sure to consider how much care you will need and how much you can afford to pay when choosing your elimination period.

Benefit Triggers

"Benefit triggers" is the term that an insurance company uses to describe when you are eligible for benefits. This is a very important part of a long-term care insurance policy, so be sure to look at it carefully when you are considering policies. Different policies may have different benefit triggers, and some policies may use more than one way to determine when to pay benefits. Types of benefit triggers include:

- Activities of Daily Living

The inability to do activities of daily living (ADLs) is the most common way that an insurance company will determine eligibility. The six ADLs most companies use are bathing, continence, dressing, eating, toileting, and transferring. Normally, a company will pay benefits when you cannot perform a certain number of these ADLs, such as two of the six. Also, be sure you understand what a policy means when it says that you cannot do certain ADLs. Make sure you understand the policy's requirements so that you know what to do when you need to file a claim.

- Cognitive Impairment

Most long-term care insurance policies use cognitive impairment, or mental incapacity, as a benefit trigger. The company will pay benefits if you cannot pass certain mental function tests. Coverage for cognitive impairment is especially important if you have Alzheimer's disease or another dementia. ? Certification of Medical Necessity

Most policies will require a healthcare practitioner to determine that the care is medically necessary.

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Long-Term Care Insurance in Rhode Island

If you are considering buying long-term care insurance in Rhode Island, you should be aware of the state's requirements for long-term care insurance sold here. Even if a policy is issued in another state, it must have substantially similar regulations in order for it to be considered acceptable in Rhode Island.

- All long-term care insurance policies sold in Rhode Island must provide home health care benefits that meet the National Association of Insurance Commissioners' minimum standards for home health care benefits in long-term care insurance policies. These home health care benefits must be at least 50% of the benefits provided for care in a nursing home.
- No policy sold in Rhode Island may provide coverage for skilled nursing care only or provide more coverage for skilled care in a facility than coverage for lower levels of care.
- All policies must offer inflation protection at a 5% rate.
- All policies must include the option to purchase non-forfeiture benefits.

To obtain a list of companies legally authorized to sell long-term care insurance in Rhode Island, contact the Department of Business Regulation at 222-2223.

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Footnotes:

1 "Beyond 50.03: A Report on Independent Living and Disability," AARP Public Policy Institute. (Washington, DC: 2003)

2 Kemper, P., and Murtaugh, C.M. (1991). Lifetime use of nursing home care. The New England Journal of Medicine: 324 (9): 595-600.

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